

GAO Highlights

Highlights of [GAO-16-616](#), a report to congressional requesters

Why GAO Did This Study

NIH spent over \$23 billion to support extramural research in 2015, including \$6.3 billion for indirect costs, which are costs not directly attributable to a specific research project or function, such as utilities expenses, for grants and cooperative agreements. NIH relies on designated cognizant agencies to design adequate internal controls over the processes for negotiating indirect cost rates with research organizations. Once set, these rates must be accepted by NIH and all federal awarding agencies.

GAO was asked to review the internal controls for overseeing the validity of indirect cost rates for NIH's research organizations. This report examines the extent to which the three primary cognizant agencies (CAS, NIH-DFAS, and ONR) that set indirect cost rates on NIH's behalf have designed internal controls to mitigate the potential for fraud, waste, and abuse in the indirect cost rate-setting process. GAO reviewed OMB guidance, the FAR, and the cognizant agencies' internal guidance on indirect cost rate negotiation; interviewed staff at the cognizant agencies; and reviewed a nongeneralizable sample of negotiation case files to obtain an understanding of the design of controls.

What GAO Recommends

GAO is making 12 recommendations to improve controls over their indirect cost rate process. HHS concurred with GAO's 7 recommendations to CAS and NIH-DFAS and described ongoing and planned actions to address them. DOD concurred with 4 recommendations to ONR and partially concurred with 1. GAO continues to believe that action is needed, as discussed in the report.

View [GAO-16-616](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

September 2016

NIH BIOMEDICAL RESEARCH

Agencies Involved in the Indirect Cost Rate-Setting Process Need to Improve Controls

What GAO Found

Research organizations that apply for National Institutes of Health (NIH) funding participate in an indirect cost rate-setting process, which involves submitting a rate proposal; reviewing the proposal and having it audited by a third-party agency at the cognizant agency's request; and finalizing (negotiating) the rate for the organization. The Office of Management and Budget (OMB) and the Department of Health and Human Services (HHS) have designated three primary cognizant agencies to set indirect cost rates for federal financial assistance funded by NIH:

1. HHS's Cost Allocation Services (CAS),
2. NIH's Division of Financial Advisory Services (NIH-DFAS), and
3. the Department of Defense's (DOD) Office of Naval Research (ONR).

These cognizant agencies are responsible for ensuring that negotiated indirect cost rates comply with OMB guidance and the Federal Acquisition Regulation (FAR), as applicable.

GAO found that while the three agencies had designed controls for setting indirect cost rates, deficiencies in the design of some of these controls could result in the waste of federal resources. The deficiencies GAO identified are as follows:

- None of the three agencies has updated its internal guidance to reflect current OMB guidance or changes in agency requirements, such as documentation requirements.
- ONR relies on audits by the Defense Contract Audit Agency to ensure the adequacy and compliance of indirect cost proposals that it processes, but ONR has not included acceptable time frames in its internal guidance for when these audits are to be completed or what steps are to be taken when audits result in qualified opinions or when a prior audit opinion is rescinded.
- All three cognizant agencies' internal guidance lacks detailed instructions to supervisors on their review responsibilities over the indirect cost rate process.
- CAS and ONR have not developed internal guidance addressing differences in negotiating indirect cost rates with certain types of research organizations, such as universities and hospitals.
- ONR and NIH-DFAS have not developed mechanisms to track key milestones for the indirect cost rate-setting process.

If these deficiencies are not addressed, there is an increased risk that these cognizant agencies may not properly and consistently negotiate indirect cost rates and that the rates negotiated may not comply with applicable federal regulations. Thus, there is an increased risk that the indirect cost rates used to reimburse NIH research organizations will include costs that are not allowable, allocable, and reasonable, and may result in wasted federal resources.